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# ON JAPAN'S LIBERALIZATION OF TRADE AND EXCHANGE

*By* Kiyoshi MATSUI\*

## 1. The Significance of Liberalization

Since the end of last year, (1959) we have had enough of discussion appearing repeatedly in newspapers and magazines on the subject of the so-called liberalization of trade and exchange. We may as well call it one of the most important current topics of today. However, the author rather wishes to consider here in this article the significance of the liberalization problem in the history of development of capitalism, not from such a standpoint of viewing it as a current topic, but from a long-term viewpoint.

If we characterise the significance of the current liberalization problem in one word, it is the liberalization under the state monopolistic capitalism. Today's liberalization has many different features from the free trade under pre-monopolistic capitalism. Firstly, the liberalization of today is not intended to eliminate the control over foreign exchange completely, neither will it possible to eliminate it even if attempted. For instance, in the case of our country, what is called liberalization means an increased rate of the automatic approval system items (the A.A. system goods) in relation to the total foreign currency budget, and does not imply removal of the exchange control which consists of the foreign exchange concentration system, the foreign currency budget system and so forth. Secondly, it is not intended to carry out perfect liberalization all at once as is the case with the return to the international gold standard system, but is planned to effect liberalization gradually in an imperfect form. For example, the lifting of gold embargo carried out by our government in 1930 was nothing other than the return to the international gold standard system, and perfect liberalization was realized at one sweep. Not only the non-resident account and the resident account in the category of the working account, but also the capital account as well as the working account were freed all at once. On the other hand, today's liberalization is designed to push on the liberalization gradually from the non-

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resident account to the resident account in the category of the working account, and from the working account to the capital account, while maintaining the foreign exchange control system itself.

Thirdly, the liberalization of today is the liberalization based on bloc economies, and it does not attempt to realize liberalization on a global scale at one strike. It is a good example that the European nations had formed the European Common Market, the Free Trade Association and other economic blocs before they went ahead with liberalization. It may well be said that Japan's liberalization has a similar tendency, though in different form, as it is based on a political and military bloc known as the New Security Treaty system.

In the fourth place, the liberalization of today is at issue with an implicit understanding that the would-never-be-liberalized area or the socialist world economy shall be outside the question. In this sense alone, the liberalization under state monopolistic capitalism can hardly be perfect after all.

Now, monopoly is a thing that came into the world as a child born from the negation of free competition originally. But even monopolistic capitalism can never be expected to eliminate free competition out as long as it remains capitalism. The coexistence of monopoly and free competition may be called a characteristic of monopolistic capitalism. In some phase of monopolistic capitalism will monopoly be fortified or even the state power will be called for at times, while in some other phase of it the scope of free competition will be enlarged on the contrary. In other words, in such a phase as war or panic monopoly will naturally be strengthened, while in the phase of economic prosperity or stability liberalization will rather be welcomed. Today's liberalization is liberalization under such state monopolistic capitalism. Therefore, it will be necessary for us to give some considerations on state monopolistic capitalism before we proceed to ascertain the significance of today's liberalization.

Opinion is divided on the question as to when state monopolistic capitalism was formed in Japan, but it seems correct to consider that the time of formation dates after the great panic of 1930 and 1931. Of course it took a few more years before it took a definite form as an established institution, nevertheless it can be confirmed internationally that with the great panic as a turning point, state monopolistic capitalism was formed in an attempt to tide over the difficulties. To speak of our own case, there occurred a number of events such as the outbreak of the Manchurian War, the reprobhibition of the gold export, the enactment of the key industries control law in 1931 alone, all of which can be regarded as the signs marking the formation of state monopolistic capitalism. And in the process of

formation of state monopolistic capitalism the control over foreign trade and exchange was tightened step by step. The first foreign exchange control was the prevention of capital flight law of June 1932. The reprobhibition of the gold export enforced by the British Government in September 1931 created an atmosphere of uneasiness fearing that Japan would have to follow the same step and place the gold export under a ban again. This uneasiness among the Japanese resulted in the so-called flight of capital through 'Selling yen, buying dollar' business, and the purchase of dollars totaled 510 million yen worth for only about three months between September 21 and December 12. Owing to this, the gold reserves of our country run low to about one half, from 1042 million at the end of January 1930 to 430 million yen at the end of January 1932, with the loss of about 600 million yen during the two-year period. It was under these circumstances that the gold embargo of December 13 was brought about. Although this measure could prevent the outflow of gold, it did not stop the flight of yen. In other words, free foreign trade and exchange was still maintained. Therefore, the reprobhibition of the gold export was the condition precedent of the negation of liberalization, but it did not mean the immediate cessation of free trade and exchange. Due to exchange speculation and capital flight, exchange rates dwindled. To cope with this situation, the national government enacted "the Prevention of Capital Flight Law" in June 1932. The Article 1 of the law provides as follows: "the Government shall be able to prohibit or restrict by order such actions as buying and selling of foreign currency and exchange, remittance to foreign countries, deposit, transaction and loan of foreign currency, purchase and sale and importation of securities or other obligations denominated in foreign currency, and giving of credit to residents abroad, whenever it sees the necessity of doing so for the purpose of keeping control over the inward and outward movements of capital according to the internal and external situations." Though the flight of capital could be prevented by this law, the downward tendency of foreign exchange was not arrested. And the primary reasons for that were exchange speculation and exportation without exchange. Because these could not be prevented by the Prevention of Capital Flight Law, the need of enacting a more comprehensive law became pressing. Under these circumstances "the Foreign Exchange Control Law" of March 1933 came into being. Further in April of the same year "The Orders Based on the Foreign Exchange Control Law" was promulgated, and in January 1937 the Import Exchange License System was put in force. Through these measures, the wartime exchange control system became more and more tight.

It is needless to say that the trade control was also exercised along

with it. In August 1937 which is the following month of the outbreak of the Sino-Japanese War, "the Law Concerning the Adjustment of Trade and Industries Concerned" and "the Trade Association Law" were promulgated. The former consists (1) the provisions concerning prohibition and restriction of import and export, and (2) the provisions concerning the control over the exports and imports. Further on September 9 "the Law concerning Emergency Measures for the Exports and Imports" tied up with "Emergency Funds Regulation Law" were also promulgated. According to this law, the Government could not only order by a departmental ordinance the prohibition or restriction of import and export, but also order restriction of output to the domestic industries or even interfere with a manufacturing process. These may well be called the direct intervention by the state power, that is, the trade control.

With panic and war acting as impetus, the state monopolistic capitalism of Japan was formed, which was accompanied by the exchange-trade control system. Now, once state monopolistic capitalism is established, this becomes the structure of capitalism and will be maintained even after a direct temporary cause called war has gone. Therefore, it may be regarded as the structure of capitalism under constitutional crisis in a more general sense. The postwar state monopolistic capitalism can be apprehended as such. The deepening of crisis due to war took the form of accelerated unequal development of capitalistic countries above all, and this brought about serious shortage of dollars in many capitalistic countries. This phenomenon has become more and more distinct in Japan, too, from about 1948-49 when the so-called 'economic independence' became a subject of discussion, disregarding the period during which Japan was under the direct rule of occupation forces immediately after the war. "The Foreign Exchange and Foreign Trade Control Law" which was legislated and promulgated by the Law No. 228 on December 1, 1949 was intended to meet this situation. The Law underwent amendment several times to this date, but its characteristics may be found in the following points.<sup>1)</sup>

First, the foreign exchange concentration system. With some very special exception, all the bills of exchange acquired by non-governmental businesses ought to be sold to the licensed foreign exchange banks. The banks sell the bills to the Foreign Exchange Fund Special Account in accordance with the prescribed regulations, and only a part of the bills may be retained in their hands. The bills retained by them, however, must be sold to the Special Account if so required by the Finance Ministry.

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1) *Trade Relations Law*, edited by Yoshio Kanazawa, Nippon Hyoronshinsha Co., P. 15. seq.

Second, the foreign exchange budget system. The Government draws up semi-annually the foreign exchange budget in order to determine a rude sketch of the apportionment of foreign exchange thus concentrated. As a rule, each exchange transaction should go through the legal procedure of permission, approval, certification or report, all of which are obligatory. To mention some of important acts that require such permission, there are :

- (1) Payment to or the receipt of payment from, foreign countries.
- (2) The occurrence, alteration, settlement, lapse, transfer or other kinds of disposition of credit and debt in foreign currency.
- (3) Securities and immovables dealings involving the international movement of capital.
- (4) Conclusion of a service contract between a resident and a non-resident.
- (5) Import and export of the means of payment.
- (6) Import and export of commodities.

The control of the acts provided for from (1) through (5) may be called the exchange control in a narrow sense. (6) comes under the trade control in a narrow sense. As we have seen above, today's trade control chiefly depends upon the exchange control, and therefore, it may be regarded as a part of the exchange control. The exchange control in such a sense is the exchange control in a broad sense.

The state monopolistic capitalism of postwar Japan has been accompanied by such a exchange and trade control system during the period from the end of 1949 till the end of 1959. How could the demand for liberalization come into being under such circumstances? To find the answer to this question, we have to review the development of domestic as well as international situations thereafter even if briefly.

## **2. The Progress of the Demand for Liberalization**

It was already stated that state monopolistic capitalism would also be unable to eliminate economic free competition thoroughly. Especially in such a phase where a nation's economy shows a sort of stability, the voice for liberalization will be heard strongly. With the ending of the World War II, the capitalist world set up the International Monetary Fund and the International Bank for Reconstruction and Development, and it may well be said that the goal of these international organizations is the liberalization of the international economy in a sense. Japan joined the International Monetary Fund in 1952, and became a member country of the Gatt (General Agreements for Tariffs and Trade) in 1955. This would mean to other nations that Japan endorsed the goal of these international organizations and

promised her cooperation with other member countries in liberalization. In spite of the fact that such a demand for liberalization already existed ever since the ending of the last war, it has long been prevented from being realized by the very factor which we referred to in the foregoing. That is, the accelerated unequal development of capitalistic countries after the war or to put it in the concrete, the shortage of dollars in these countries. As long as these countries suffered from serious dollar deficit, it was inevitable to take restrictive measures against the U.S. exchange and trade.

Thus, the movement toward liberalization after the war first started within Europe, with the restriction on the U.S. left unchanged<sup>2)</sup> The realization of this movement took the form of the establishment of OEEC (Organization for European Economic Co-operation) in 1948. In July 1949, the executive Committee of OEEC proposed liberalization among European nations. Further, on September 18, 1950 the European Payments Union (EPU) was launched with the purpose of facilitating payments among the trading nations. It is also universally known that the European Common Market of six European continental countries, and the European Free Trade Association of seven nations with the United Kingdom as leader were formed as much stronger unions than those two co-operative bodies. These international organizations or blocs were primarily designed to contribute towards promoting the liberalization of exchange and trade within their respective spheres. As a matter of fact, they had been achieving considerably good results in regional liberalization program as a preliminary step before the liberalization policy was adopted toward the United States at the end of 1958.

It is interesting to note that the movement of liberalization towards the United States began to take concrete shape just about the time when the shortage of dollars in capitalistic countries began to improve. With the prosperous world economy of 1955-56 for a background, the world capitalism began to show a sort of stability. Behind this was a relaxing tendency of unequal development among capitalistic countries. In the prosperous days of 1955-56, technological innovation and equipment and facilities investment based on technological innovation in the hitherto backwarded capitalistic countries like Japan and some European countries made rapid progress, and served to lessen the difference of productivity that had existed between the U.S. and these countries. In the United States, on the other hand, the gigantic military spending that accounts for a large portion of the total national expenditure has always been a latent cause of inflation, and the

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2) *How will the liberalization of trade change Japan's economy?*, edited by the Diamond, p. 13, seq.



cost inflation acted as a brake to arrest the growth of export. The international balance of payments of the United States produced a deficit of \$ 3.5 billion in 1958, and another deficit of \$ 3.7 billion in 1959. This means that the dollar holdings of Japan and European nations increased that much. If we look at the dollar holdings by major capitalistic countries at the end of 1959, each country shows a considerable amount as we see West Germany \$ 5,780 million, the United Kingdom \$ 2,736 million, France \$ 1,720 million, Switzerland \$ 2,058 million, Japan \$ 1,320 million.<sup>3)</sup> It was under these circumstances that the exchangeability of currency of major countries was recovered and the so-called liberalization was put in effect in Europe at the end of 1958. Since that, the liberalization of trade and exchange progressed satisfactorily in Europe, and the rate of trade liberalization as of 1960 is West Germany to OEEC 92%, West Germany to the U.S. 85%; the United Kingdom to OEEC 98%, the United Kingdom to the U.S. 95%; France to OEEC 90%, France to the U.S. 90%; Switzerland to OEEC 91%, Switzerland to the U.S. 99%.

The recovery of the exchangeability of currency of major European countries in 1958 brought considerable impact upon Japan's economy, but the liberalization program of Japan during the year 1959 made only slow progress at a snail's pace. Her liberalization ratio amounted to no more than 33.3% in the first, and 31.5% in the second half-year. It was largely due to the pressure from the International Monetary Fund and the General Agreements on Tariffs Trade and that Japan determined to take steps toward liberalization policy. That is, in September 1959 the Finance Minister Sato attended the general assembly of IMF, and the restrictive import policy of Japan became the target of bitter complaints and criticism by delegates from many countries. Also in October the GATT conference was held in Tokyo, and there a similar contention was repeated by the American delegate, Undersecretary of State Douglas Dillon, and many other foreign delegates. Under these circumstances, the government issued announcement on November 11 as to 'future import liberalization policy', thereby Japan finally entered the stage of carrying out her liberalization policy. Then, at the end of December, the government decided on and announced a policy to put the importation of raw cotton and wool, the two major items of our import, under the automatic approval system from April 1961. But what has more epochal significance for liberalization was the so-called "Declaration of Liberalization" issued on January 12, 1960. To look into the contents of the declaration, the part dealing the liberalization of foreign exchange sets forth

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3) "A proposal on the liberalization of trade and exchange", Hiroo Hirota, *Economist*, March 15, p. 41.

a policy covering the following six items :

- (1) Opening of the non-resident yen account.
- (2) Relaxation of the foreign exchange concentration system.
- (3) Easing of overseas travel restrictions.
- (4) Expanding the list of trading firms on reciprocal account.
- (5) Freer remittance to Japanese residents abroad.
- (6) Easing of miscellaneous remittance abroad.

These are scheduled to be put in effect from about April when the new fiscal year begins. With respect to the liberalization of trade, this was the third liberalization measure following two similar decisions made on November 11 and December 28, 1959. As result of this measure, a total of 433 items will be included in the A.A. system as from April. As to the six limited import items from the United States, which are most important in liberalization, it is decided that iron scrap, beef tallow and lard will be put under the A.A. system as from April although the discrimination against refined lard will end after the scheduled tariff negotiations with the United States. Imports of skins will be freed in the first half of the fiscal year 1960 at latest, and the discrimination against imports of soyabean will be removed around October.

What is most important is the fact that the government decided to work out a plan for year-by-year stepped-up liberalization before the end of next May. The opinion is heard that the liberalization ratio will amount to 40% in the first half of 1960, and 70% in the first half of 1961, but it is hoped that this plan will make this point clear.

### **3. Some Problems to be Considered in Connection with Liberalization**

Since the liberalization plan is still in the melting-pot, it won't be a responsible attitude to make an imprudent statement about the future of liberalization at this stage. Therefore, the author will only point out some points which are likely to come into question sooner or later, while touching on some of the contents of the liberalization program.

Let us begin with the liberalization of trade. As was pointed out already, the liberalization of trade now at issue means the freeing of the control over exchange accompanied with trade. The trade control that has been in practice until today is not a kind of control that was exercised in old days for the purpose of protecting infant industries by tariffs. It is the control of trade through the control of exchange, and therefore, the liberalization of trade as the word goes does not mean the sort of thing which we used to call "free trade". Instead, it means the freeing of the exchange

control. And as it is clear from what we have said in the foregoing, liberalization means an increased ratio of the items listed under the automatic approval system to those listed under the foreign currency budget allocation system. With this change in the ratio, the importation of raw materials, semi-finished products and finished products becomes easier to the importers. How could this shifting become possible? Needless to say, it was only because the foreign currency holding of our country grew abundant. So, it is quite likely the liberalization program will stagnate or dwindle should the international balance of payments turn unfavorable to our country and the foreign currency holding fall off in the course of economic growth or in the process of business fluctuation. Granting that all other conditions remain constant, a higher level of economic growth tends, generally speaking, to create a greater demand for imports. Hence, it is quite possible that the liberalization program will run into a trouble if exports do not expand in proportion as imports increase. The government is now working on a ten-year income-doubling program, according to which a high rate of economic growth is expected. An accurate measurement should be taken as to the relation between the income-doubling program and the liberalization program.

The liberalization of today was started in the height of business prosperity after May 1958. This is the point which distinguishes it from the liberalization effected by means of the lifting of the gold embargo in the midst of the panic of 1930. Besides, the business fluctuation of the present day assumes a considerably different form of manifestation under state monopolistic capitalism. The business policy through the instrumentality of the state power served to shorten the waves of prosperity and depression, and the postwar capitalism has not undergone any serious, and classical type panic as the prewar capitalism often experienced. But it would be wrong to make a hasty conclusion that we shall have no more panic. As long as capitalism exists, business fluctuation is unavoidable. Besides, the business policy backed up by the strong state power is gradually losing its influence, just because there is a limit to the competency of our nation to bear the financial burdens. If such being the case, we should be well prepared for the time when the present prosperity will sooner or later give place to depression, no matter whether we can or cannot say exactly when such time is due since very limited materials are only available for our judgment. In such days of depression, the foreign currency holding may develop alarming symptoms due to inactivated exports. In planning the liberalization program, it is required that the men in charge should have the prospect as accurate as possible as to the future tendency of business. Although the tempo of the liberalization policy may be quickened or may run slow in the course

of business fluctuation in this manner, what I want to emphasize is that in either case the exchange control will continue to exist in the background. If one knows that today's liberalization is the liberalization under state monopolistic capitalism, he must be able to understand this as a matter of course.

In the next place, let us consider the relation of the liberalization of trade to individual firms. It is correctly pointed out by many people that the liberalization of trade will expose the Japanese firms hitherto kept under hothouse protection by the exchange control to severe international competition. Some people are very optimistic about the future, believing that the constitutional improvement of individual industries is bound to be attained on the principle of economic rationalism, but the problem is not so easy as they think. When the discrepancy between superior and inferior industries becomes larger as a result of liberalization, there will be some such industries of comparatively inferior competitive power, that is, those which are likely to be beaten down by foreign competition, that are playing an important role in the field of employment in Japanese economy. As for these industries, the need for protective tariffs or the like measures will be voiced. As was pointed out many times already, today's liberalization of trade means the emancipation from the exchange control, hence it is not inconsistent with tariff policy. In comparison with the old free trade that was opposed to protective trade, today's liberalization differs from it on this point. It be acknowledged, however, that there is a limit to tariff policy, must because as a member nation of GATT, Japan has its own limitations in raising tariffs for the protection of her industries. The tariff rates of our country which were fixed in 1951 are counted among the low tariff rates of the world, and it is universally known that there are many other defects and objectionable points other than this in our economy. As liberalization progresses, the revision of the tariffs will come to the front as a problem of primary importance.

The liberalization of foreign exchange consists of the liberalization of the working account and that of the capital account. The working account may be classified into the trade account and the non-trade account, or divided into the non-resident account and the resident account. It was referred to already that the declaration of liberalization issued on January 12 confirmed that the decision was made to materialize the liberalization of not only the trade account but also the non-trade account shortly. Also it is evident from some European examples that the liberalization trend will gradually extend from the non-resident account to the resident account. What is important

here is, I think, the liberalization of the capital account.<sup>4)</sup> It is important that the liberalization of the working account is possible without necessitating the revision of "the Foreign Exchange and Foreign Trade Control Law" nor "the Law concerning Foreign Capital" and by making a few alterations on the method of administration of these laws, while the liberalization of the capital account necessitates the revision of these laws. Also, when one speaks about the liberalization of capital, the inflow of foreign capital comes to our mind as a main issue at the present stage. Indeed, it is a matter of great importance to question how the introduction of foreign capital will affect our economy. It is told that a plan to ease the limitation of free acquirement of stocks by foreign investors from the current rate of 5-8% to 10-15% is now under consideration. Some people are afraid that such easing of the introduction of foreign capital into Japan would inevitably subordinate the Japanese economy to foreign capital, while some others do not take it so seriously and believe that the introduction of foreign capital never reach to such a scale as some people are concerned about, and that the subordination of Japanese economy to foreign capital would never become a problem. It is impossible at this stage to give any definite opinion as to which view of the two is correct, and the author only suggests that there are two such different opinions.

#### 4. Liberalization and Different Classes

Some of the effects of liberalization have already appeared, and more of them are expected to come out soon. Here the author will give a brief consideration to the effects at large. "How will the liberalization of trade change Japan's economy" edited by the Diamond considers the effects of liberalization by classifying our industries into the following types: namely, the backward type industries (the primary industries such as agricultural industry, and mining industry), the international standard type industries, the transition to growth type industries, and the excessive competition type industries. The approach is very interesting.<sup>5)</sup> Also, the Investigation Department of the Japan Industrial Bank has been conducting a useful investigation on "the liberalization of trade and key industries".<sup>6)</sup> With the assistance of these informations as his reference, the author wishes to look into the effects of liberalization from a somewhat different view-point.

4) *The Liberalization of Capital Transactions and the Stock Market*, by the Investigation Department, Nomura Securities Co.

5) *How will the liberalization of trade change Japan's economy?*, edited by the Diamond p. 113, seq.

6) *The liberalization of trade and key industries*, by the Investigation Department, The Japan Industrial Bank.

### **Monopolistic Capitalist**

An idea prevails that today's liberalization was initiated under the pressure of foreign countries and on the initiative of monopolistic capitalists within our country. The idea itself is not wrong, but for the sake of accuracy, it may be necessary to make some explanation. There is no question that giant industries with strong financial power are naturally stronger in international competition in the matter of cost. Although we say in one word "monopolistic capitalist industry", there are many different kinds. For example you can look at the difference between the textile and the iron and steel industries. According to the classification of the Diamond, textile industry is put under the category of the excessive competition type industry. In point of cost and price, the industry has been known from old as an industry equipped with sufficient power to compete with foreign countries, and has always been the leader of free trade. Because of this fact, we have a good reason to believe that the consequence of liberalization will be excessive competition in the industry, and the problem of how to adjust surplus equipment in its chronic state will come to assume a grave aspect. To speak of the iron and steel industry, it is on or near the international level in respect of cost, and is classified as an international standard type industry according to the Diamond. In terms of comparative production cost, the iron and steel industry may well be ranked at the border line between relatively superior industries and relatively inferior industries. It is safe to say that it is a result of her constitutional improvement made possible through the renewal of equipment after the war that the iron and steel industry that could survive the prewar years under the protection of the government has grown strong enough to stand on her own feet. The question of how far will our iron and steel industry be able to debouch into foreign markets as an export industry through liberalization may have the key to determine the success or failure of our liberalization program. Although we call them monopolistic industries without distinction, we now saw that they were not necessarily the same in contents. If and when we take these differences into our consideration, we may safely support the idea that monopolistic capital is the promoter of liberalization.

### **Medium and Small-sized Industries**

Although we say "medium and small-sized industries" in one word, there are very many kinds of such industries that fall under the same category, and quite naturally the effects of liberalization upon them would not

always be the same. It is pointed out that liberalization is unfavorable to medium and small-sized industries as a whole, but there are some such industries among them that rank superior in order of comparative production cost. These superior industries are expected to debouch further into foreign markets through liberalization. For instance, a part of mechanical industry such as transistor radio, sewing machine or camera. However, the greater part of mechanical and chemical industries come under the heading of the transition to growth type industry according to the classification devised by the Diamond, and are expected to suffer considerably when they will be confronted by fiercer competition that liberalization will bring about. Even in textile, and iron and steel industries which have been believed to be strong enough to compete with foreign industries, this general belief only applies to large scale enterprises, and not to the so-called medium and small-sized enterprises. This may be well explained by the fact that middle and small textile manufacturers started a strong movement against the government measure when the decision was made on December 26 last year to include raw cotton and wool in the list of the automatic approval items as from April 1961. Perhaps nobody can deny that liberalization has a tendency to provoke regimentation of middle and small capital by big capital, and to cause some middle and small enterprises to drop out of the business race. Even among those who support liberalization, the voice demanding effective government measures for the constitutional improvement of medium and small-sized industries is getting stronger.

### **Agricultural Industry**

Most of our agricultural products such as rice, wheat and soyabean are far above their international price level, hence extremely weak in international competition. Therefore, this industry is regarded as a branch where liberalization will be delayed most or even be impossible. Some advocates of extreme economic rationalism insist that liberalization should be pushed as it is desirable for the future of Japan's economy even if it demands some sacrifice now. In view of the fact that such radical industrialization has never been successful except in England of the 19th century, we can see that it won't be carried out so easily as they expect. It is because the primary industries such as agriculture and mining industry are playing an important role in the field of employment. How to raise the agricultural productivity without provoking employment difficulties remains a problem yet to be solved in future. Is it too pessimistic to think that liberalization will not be realized before the pending problem will have been solved?

### **The Laboring Class**

The labor unions and the progressive parties are strongly against liberalization. To see some of the reasons of their objection, the liberalization policy is inseparable from the revision of the Security Treaty; it is not a policy reached by Japan's own judgment, but a policy forced by America; it will be followed by a low wage policy as an inevitable consequence. Laying aside political problems, the author would like to point out the following points as the economic effects of liberalization upon the laboring class. Liberalization will necessarily intensify the international competition. The natural consequence of it will be the enforcement of industrial rationalization policy. Industrial rationalization may tend to improve equipment and facilities, but also may lead to a low wage policy, intensified labor and personnel cut. Some people contend that if we succeed in lowering cost by equipment and facilities improvement and so forth, it should be possible to bring down wage cost without resorting to low wage policy, and therefore, individual enterprises must do their best under liberalization towards this direction. Such contention may be acceptable merely as an abstract theory, but the important question for us is whether such measures could possibly be taken under today's capitalist economy. Of course, liberalization will not affect different industries in equal manner nor necessitate the same measures. Accordingly different will be the measures to be followed by the laboring class to cope with these different situations. Quite possibly the objection to liberalization will be the conclusion to be reached by the laboring class in the final analysis, but even so such objection will not be powerful enough unless it is accompanied by practical economic demands.